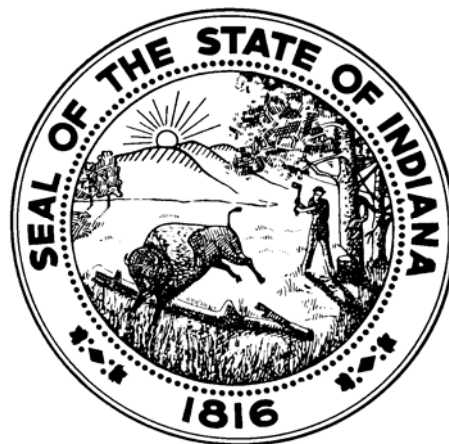


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

REVIEW REPORT
OF
NEW CASTLE CORRECTIONAL FACILITY
STATE OF INDIANA

April 1, 2003 to December 31, 2005



FILED
12/29/2006

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AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commissioner, Indiana Department of Correction	Evelyn Ridley - Turner J. David Donahue	02-01-01 to 01-09-05 01-10-05 to 01-11-09
Superintendent	Ronald L. Rice	03-31-02 to 12-31-05



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF NEW CASTLE CORRECTIONAL FACILITY

We have reviewed the receipts, disbursements, and assets of the New Castle Correctional Facility for the period of April 1, 2003 to December 31, 2005. New Castle Correctional Facility's management was responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the New Castle Correctional Facility are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations, except as stated in the review comments.

STATE BOARD OF ACCOUNTS

September 25, 2006

NEW CASTLE CORRECTIONAL FACILITY
REVIEW COMMENTS
DECEMBER 31, 2005

The New Castle Correctional Facility is no longer a State operated facility. As of January 1, 2006, the State of Indiana contracted with a private corporation to operate the New Castle Correctional Facility.

TRUST FUND

Accounting Records

The New Castle Correctional Facility's Offender Trust Fund System (OTS) did not reconcile with the Offender Trust Fund control ledger. The OTS is a computerized system that allows the facility to know the balance of every offender's account. All checks and receipts are posted to this system daily. As of December 29, 2005, we found that the Trust Fund control ledger and the reconciled bank balance was \$637.04 greater than the OTS balance. In January 2006, the balance of the Trust Fund, less the outstanding checks, was transferred to the private contractor that now runs the facility. The source of the overage was not investigated by the Department of Correction. The Department of Correction should require the contractor to return the overage and deposit it in the Recreation Fund.

Each agency is responsible for maintaining an effective and accurate accounting system for subsidiary and supplementary records. At all times, the agency's manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank or Auditor's balance should agree. If reconciled bank or Auditor's balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

RECREATION FUND

Documentation

The New Castle Correctional Facility did not maintain proper documentation for Recreation Fund disbursements. Approvals for disbursements were made without adequate documentation as to the purpose of each disbursement. Also, disbursements were made without an approval signature. Due to the lack of adequate documentation, we were unable to determine that the purchases were for the direct benefit of the offenders of the institution.

Each Recreation Fund disbursement should be documented with the purpose for the disbursement, person and department requesting the purchase, date requested, date paid, amount of payment, check number, written approval of the superintendent or designee, vendor invoice, and verification that the goods were received. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 13)

Internal Controls

The New Castle Correctional Facility maintained a Recreation Fund for the direct benefit of the offenders. The major sources of receipts for this Recreation Fund were commissions from commissary purchases, telephone, and vending commissions. The telephone and vending commissions were received via a check each month. The facility did not issue receipts for these monies as a result of deficiencies in the facility's internal control structure. Therefore, we could not determine the date that the funds were received by the facility. Due to the lack of proper documentation, we could not verify that all funds were properly deposited into the checking account or were deposited in a timely manner.

NEW CASTLE CORRECTIONAL FACILITY
REVIEW COMMENTS
DECEMBER 31, 2005
(Continued)

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Some type of receipting method must be utilized for all money received. If the volume is not extremely high, the simplest and most effective method is to issue an official receipt (either prescribed or approved by the State Board of Accounts) to each person paying in money to the state agency. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

MONTHLY FINANCIAL STATEMENTS

On January 1, 2006, the Department of Correction turned over the operations of the New Castle Correctional Facility to a private company as of January 1, 2006. However, the Department did not close the facility's Offender Trust Fund and Recreation Funds checking accounts. Both funds maintained balances well after January 2006. Therefore, the Department was required to complete monthly financial statements and bank reconciliations for these funds. However, the required monthly financial statements and bank reconciliations were not completed except for May 2006. Due to the lack of documentation, the validity and accountability for some monies received and disbursed during those periods could not be established.

Institutions should have internal controls in effect which provide reasonable assurance regarding reliability of financial information and records. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 13)

Each institution should file monthly financial statements for its local funds with the state agency having administrative control over the institution. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 13)

BANK ACCOUNTS

The Indiana Department of Correction has not closed the bank accounts for funds maintained outside of the state's accounting system for the New Castle Correctional Facility in a timely manner. NCCF is now operated by a private corporation and is no longer a state operated facility. Bank accounts for the Offender Trust Fund, Offender Recreation Fund, Clearing, SDO Operating, and SDO Preventative Maintenance funds remain open under NCCF's name and the bank statements are still mailed to NCCF.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

NEW CASTLE CORRECTIONAL FACILITY
REVIEW COMMENTS
DECEMBER 31, 2005
(Continued)

DOCUMENT RETENTION

Several documents selected for our audit could not be located. The receipts for the Offender Trust Fund, Offender Recreation Fund and the Clearing Account could not be located by the facility. Due to the lack of documentation, the validity and accountability for some monies received could not be established.

Documents should be retained in accordance with a retention schedule approved by the Oversight Commission on Public Records. Also, documents must be filed in such a manner as to be readily retrievable or otherwise reasonably attainable, upon request, during an audit. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapters 1 and 15)

RECEIPTS

The New Castle Correctional Facility issued receipts for the Offender Trust Fund and the Clearing Account. It was the facility's practice to record the deposit of all receipts for the day as one deposit. However, we found that the receipt numbers that make up the day's deposit were not listed on the Offender Trust Fund ledger or the Clearing Account ledger. Therefore, we could not verify that all receipts were properly deposited into the proper checking account or that receipts were deposited timely.

Institutions should have internal controls in effect which provide reasonable assurance regarding reliability of financial information and records. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 13)

Indiana Code 5-13-6-1(b) states in part: "... all public funds ... shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state not later than the business day following the receipt of the funds."

SDO FUND RECONCILIATIONS

The Department of Correction has not performed reconciliations of the New Castle Correctional Facility's Special Disbursing Officer (SDO) advance in a timely manner. The Department of Correction has not reconciled the bank statements to the check register nor the check register to the advance amount from December 2005 to August 2006.

Two reconciliations must be performed for the SDO fund each month. The bank statement for the checking account must be reconciled to the check register. Also, the check register must be balanced to the total SDO advance. These reconciliations must be formally documented. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 7)

NEW CASTLE CORRECTIONAL FACILITY
EXIT CONFERENCE

The contents of this report were discussed on October 31, 2006, with Joseph O'Connell, Chief Financial Officer; Lisa Cottingham, Controller; and Troy McKinley, former Business Administrator. The official response has been made a part of this report and may be found on pages 8 through 12.



**STATE OF INDIANA
Department of Correction**

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Mitchell E. Daniels, Jr.
Governor

J. David Donahue
Commissioner

November 9, 2006

State Board of Accounts
Room E418, 302 W. Washington St.
Indianapolis, IN 46204

OFFICIAL RESPONSE

Ladies and Gentlemen:

In response to your audit results received during the exit conference regarding the New Castle Correctional Facility (NCCF), I offer the following plan of action to be included in the audit report.

Trust Fund--Accounting Records

At December 29, 2005, the NCCF Offender Trust Fund System did not reconcile with the Offender Trust Fund control ledger. As a result, the Department inadvertently remitted an additional \$637.04 to the private operator of the facility. The Department will immediately request the return of these dollars to the State of Indiana.

Recreation Fund—Documentation

Since the Department of Correction no longer operates the Recreation Fund for NCCF, it is not possible to correct the inadequate documentation process which was followed during the period of the audit. DOC will communicate to all other facilities the importance of maintenance of proper authorization documents for all Recreation Funds.

Recreation Fund—Internal Controls

Since the Department of Correction no longer operates the Recreation Fund for NCCF, it is not possible to correct the inadequate internal control situation related to the issuance of receipts. DOC will communicate to all other facilities the importance of maintenance of proper internal controls for all Recreation Funds.

Monthly Financial Statements

Effective immediately, bank reconciliations will be prepared for the Offender Trust Fund and Recreation Fund for all 2006 months in which the accounts were still open.

State Board of Accounts
November 9, 2006
Page 2 of 2 pages

Bank Accounts

All bank accounts associated with the NCCF have been closed as of the date of this letter.

Document Retention

The Department of Correction will follow the appropriate document retention schedule which has been approved for us by the Oversight Commission on Public Records.

SDO Fund Reconciliations

Effective immediately, reconciliations will be completed for the SDO account for the months that are incomplete.

Sincerely,



Joseph A. O'Connell
Chief Financial Officer
Indiana Department of Correction
727 Moon Rd.
Plainfield, IN 46168

To: The Indiana State Board of Accounts



From: Ronald Rice, Former Superintendent of the New Castle Correctional Facility

Date: November 27, 2006

Re: Response to Review done on the New Castle Correctional Facility covering the period of April 1, 2003 to December 31, 2005

On Monday, 11/20/06, I received a document in the mail from your Division concerning a formal Review that had been conducted on the New Castle Correctional Facility (NCCF) during the period of April 1, 2003 to December 31, 2005. I was, in fact, the Superintendent of NCCF during this particular period, however I did officially retire from state service on December 31, 2005. As you are aware, NCCF was taken over by a private corporation on January 1, 2006.

In light of the findings of this particular review, I have chosen option number 4 as an official response, so it can be included as a part of this document. In the body of this review eight (8) areas were discussed to which I will briefly respond in the order as they were presented:

(1) TRUST FUND---accounting records

In this area it was mentioned that the Offender Trust Fund System (OTS) did not reconcile with the Offender Trust Fund control ledger. It was noted there was an overage of \$637.04 for the OTS balance. In reference to this, I do recall during the transition from state to private corporation ownership the State Business Administrator reported the financial status of NCCF to me each day. The Business department was short-staffed during the last 6 to 7 months of state ownership, and was operating under stressful circumstances to meet deadlines. Under these conditions the Business department employees probably made some statistical errors, and did not discover them in the changeover to the private corporation. Had this problem area been discovered and reported to me while I was still at the facility, direct action would have been taken to correct it.

(2) RECREATION FUND---documentation

With regard to this area, it was stated NCCF did not maintain proper documentation for the Recreation Fund disbursements, and that these disbursements were made without adequate documented justification . It would appear that during the last few months of state operation over the Business department, while functioning with a shortage of key personnel under stressful conditions, there was a lack of supervision from the Business Administrator in this area. While attempting to hold things together, coupled with dealing with deadlines, reports, and the day-to-day running of the facility's routine necessities, the Business Administrator most likely fell short of adequate supervision over other business personnel handling the Recreational Fund. Had this problem been brought to my attention, it would have been addressed.

(3) RECREATION FUND---internal controls

It was stated that due to the lack of proper documentation verification of the vending and telephone commission checks into the Recreation Fund checking account could not be made, nor could it be determined if they were being deposited into the account in a timely manner. Again, as noted earlier, business department staff most likely became careless due to the stressful changeover they were working under, transitioning from state operation to private operation. This was not an easy task.

(4) MONTHLY FINANCIAL STATEMENTS

It was noted in the review the Department of Correction (DOC) did not close the NCCF Offender Trust Fund and Recreation Funds checking accounts prior to the private corporation taking over the operation. As a result of this, required monthly financial statements and bank reconciliations were not completed. My response to this is there was a lack of followthrough by DOC, and that this activity was beyond my control.

((5) BANK ACCOUNTS

Again, it was noted in the review that DOC failed to close the bank accounts for funds maintained outside of the state's accounting for NCCF in a timely manner. As noted previously, this activity was a DOC responsibility and beyond my control.

(6) DOCUMENT RETENTION

In the review it was said that several documents selected for examination could not be located. Certain receipts for the Trust fund, Recreation fund, and Clearing account could not be located by the facility. I have no clue as to why these receipts could not be located. It would appear careless recordkeeping must have occurred in this area.

(7) RECEIPTS

Moreover, it was stated the Offender Trust Fund and Clearing Account receipt numbers required for daily deposits were not listed on the Offender Trust Fund ledger or the Clearing Account ledger. Consequently, verification of receipts being deposited into proper checking accounts could not be made during the review. Again, it would appear that careless recordkeeping occurred in this area.

(8) SDO FUND RECONCILIATIONS

Finally, it was stated in the review that DOC has not performed reconciliations of the NCCF's Special Disbursing Officer advance in a timely manner. DOC has not reconciled bank statements from December 2005 to August 2006. Once again, this falls under the responsibility of DOC and is beyond the scope of my jurisdiction.